LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
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FISCAL IMPACT STATEMENT

LS 6151
BILL NUMBER: HB 1923

NOTE PREPARED: Jan 30, 2003
BILL AMENDED:

SUBJECT: Health Insurance for Retired State Employees.

FIRST AUTHOR: Rep. Adams
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill provides that a state employee who retires after June 30, 2003: (1) may obtain state employee health insurance coverage equal to the coverage offered to active state employees if the retired state employee pays the employee's share of the premium; and (2) remains eligible for coverage when the employee is eligible for Medicare.

Effective Date: July 1, 2003.

Summary of Net State Impact: The cost of this bill is estimated to be **$12.7 M** in the first year. This cost will potentially increase each succeeding year. The net fiscal impact of this proposal is based on the difference between the increase in health care costs to the state due to the additional retiree health benefits and the reduction in compensation costs to the state from those individuals hired to replace the retirees who would not otherwise have retired.

Explanation of State Expenditures: This bill requires the state to provide health benefits for retirees at the same state/employee cost split as allowed active employees. Employees who retire after June 30, 2003, are eligible for insurance, and remain eligible for coverage when the employee is eligible for Medicare. This provision would cost **$12.7 M** the first year. The cost of health insurance benefits for retirees would be approximately $23.5 M the first year. The state may realize a savings of $10.8 M in salary and associated benefits for those employees that retire above and beyond those who would normally retire.

It is important to note that this is the cost just in the first year of the additional health care benefit package. Consequently, some portion of this cost could potentially double in the second year and so on until a maximum level of retirees obtaining the increased benefits is reached. This maximum level would depend on the number of retirements of employees in this group and the number of deaths of retirees in this group obtaining the increased benefits.

Assumptions: The 2003 average state share of premiums for these plans are: $306 per month ($3,629 annually) for single coverage and $861 per month ($10,329 annually) for family coverage. Note: These premiums include health, dental, and vision insurance at current state matching rates.

For the basis of this analysis it is assumed that the cost of health benefits for retirees is 2.45 times more expensive than the regular employee pool. The cost is higher due to retirees having an adverse experience factor equal to $2.45 in claims expenses for every $1 in claims expenses experienced by the state employee group as a whole (this number is based upon data from the State Department of Personnel).

There are an estimated 7,325 state employees eligible for retirement - early and regular - this year. On average, 4% of employees eligible for early retirement and 28% of people eligible for regular retirement do so each year. Based upon these numbers, an estimated 178 people will retire early and 802 will take regular retirement this year. [Note: These figures are estimates based upon actuarial assumptions; the actual number may vary.] It is also expected that an additional 766 employees will have an incentive to retire with the new health insurance plan.

Background: Under the current retirement plan, the state does not pay any portion of health insurance for retirees. Retirees may continue their coverage by paying the full premium on their own. P.L. 13-2001 mandates that the state offer, for a fee, health insurance to retirees 65 and older that is comparable to a Medicare Supplementary package with and without a prescription drug option.

The state currently offers six regular health insurance plans for employees. One plan is the traditional self-insured indemnity plan in which the state pays all the claims.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: All.

Local Agencies Affected:

Information Sources: Keith Beesley, State Department of Personnel, 317-232-3062; Doug Todd of McCready & Keene, Inc., actuaries for the Public Employees' Retirement Fund, 317-576-1508.

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